

# The New York Times

## Gas Prices Rise, and Economists Seek Tipping Point

By CHRISTINE HAUSER

April 12, 2011

Gas prices are approaching record highs, but so far most Americans do not appear to be drastically cutting back their driving or even their spending as they did in 2008.

The question, economists agreed, is what happens if prices continue to go up and remain high.

Prices for a gallon of regular unleaded gas are topping \$4 at more service stations nationwide, revisiting the bleak territory of three years ago, when the average price for a gallon of regular gas reached a peak of \$4.11 on July 17, 2008, according to the Oil Price Information Service.

The survey of about 100,000 stations showed gas prices were now averaging \$3.77 a gallon nationwide. The average is already more than \$4 in California, Hawaii and Alaska, and analysts at the [oil](#) information service said drivers were paying more than \$4 at some stations in at least three other states — Illinois, Connecticut and New York.

The government's Energy Information Administration on Monday put the

average price for a gallon of regular gasoline slightly higher at \$3.79, up 10.7 cents from the previous week and nearly a dollar higher than the same time last year.

Even with the higher prices, economists said recent broad data had continued to be positive.

The labor market, for example has continued to strengthen, with the economy adding 216,000 jobs in March. And a survey of 25 retailers tracked by [Thomson Reuters](#) posted a 1.7 percent increase that same month, contrary to analysts' forecasts.

But economists are still trying to determine the longer-term economic impact.

“Once we cross the \$4 threshold, the pain will become more palpable, and it is going to show up more noticeably in the reduction in future consumer spending,” said **Bernard Baumohl**, the chief global economist for the Economic Outlook Group. He predicted that “spending on discretionary goods will be diminishing as the price of gasoline keeps moving higher.”

He also pointed out that the government's retail sales figures for March, a broader measure that also takes into account more sectors and categories, will be released on Wednesday. “I would not be at all surprised that non-gasoline purchases are beginning to suffer,” he said.

John Gamel, the director of gasoline research for [MasterCard](#), noted the good jobs report last month. “It has been a tug of war,” he said, between the improved labor market and any drag of higher gas prices.

He said that a MasterCard Advisors SpendingPulse report showed that gasoline consumption fell 3.6 percent in the week ending April 1, year on year, the fifth consecutive decline.

“Even with the better labor market, consumers are cutting back on their driving,” Mr. Gamel said. “That is something we will have to watch.”

The decline may also be caused by Americans’ switch to more [fuel-efficient](#) cars since 2008.

“As bad as it is to see \$4 pump prices,” the economy is in better shape now than it was three years ago, said James W. Paulsen, the chief investment strategist for Wells Capital Management.

“The recent surge in energy prices may well slow the pace of economic recovery in the next few quarters,” he wrote in a research note on Monday. “However, the different position and tenure of the U.S. job market could be the reason why the contemporary energy crisis may prove more a consumer irritant at the pump than a cycle-ending [recession](#) risk.”

Economists are also saying that industries that depend on travel revenue, like recreation and hotel businesses, could feel the pinch over the Memorial Day weekend and during the summer.

The rise in gasoline prices began to gain steam after political turmoil surged in the Middle East in February. Commodity prices soared amid heightened concerns over supply disruptions, especially from Libya, even though other producers offered to make up for any shortfall. Crude prices climbed to their highest level in more than two years last Thursday, closing higher than \$110.

“Money has been pouring into all commodities at an incredible pace for the last four months,” said Tom Kloza, chief oil analyst with the Oil Price Information Service.

“I think we have hit the tipping point,” he said of gasoline prices. “The sweet spot this year for economic growth without damaging demand was probably \$3.25 to \$3.75.

The surge in commodity prices has been so pronounced that [Federal Reserve](#) officials have commented on gasoline prices. On Monday, in fact, [Janet L. Yellen](#), the vice chairwoman of the board of governors of the Fed, said that rising energy and [food prices](#) were creating “significant hardships” for many people and that the Fed was watching the effect on inflation.

Economists said they expected that Americans would make fewer nonessential trips by car, particularly over Memorial Day or for summer vacation, or would consolidate more trips for work with errands.

“People just don’t have the elasticity in their budgets,” said Robert Sinclair Jr., a spokesman for AAA New York.

Still, many Americans are like Jon Wood, a 49-year-old mechanic who, after the run-up in gas prices in 2008, reluctantly bought a [Nissan Sentra](#) for his 80-mile round-trip commute to his job in Greenwich, Conn.

Now, with the price for a gallon of gas at \$4.19 at the station where he works, he is glad he did.

“I drive something very economical,” Mr. Wood said of his car, a 1993 model that gives him 30 miles to the gallon on the highway. “Normally, it would not be my first choice.”